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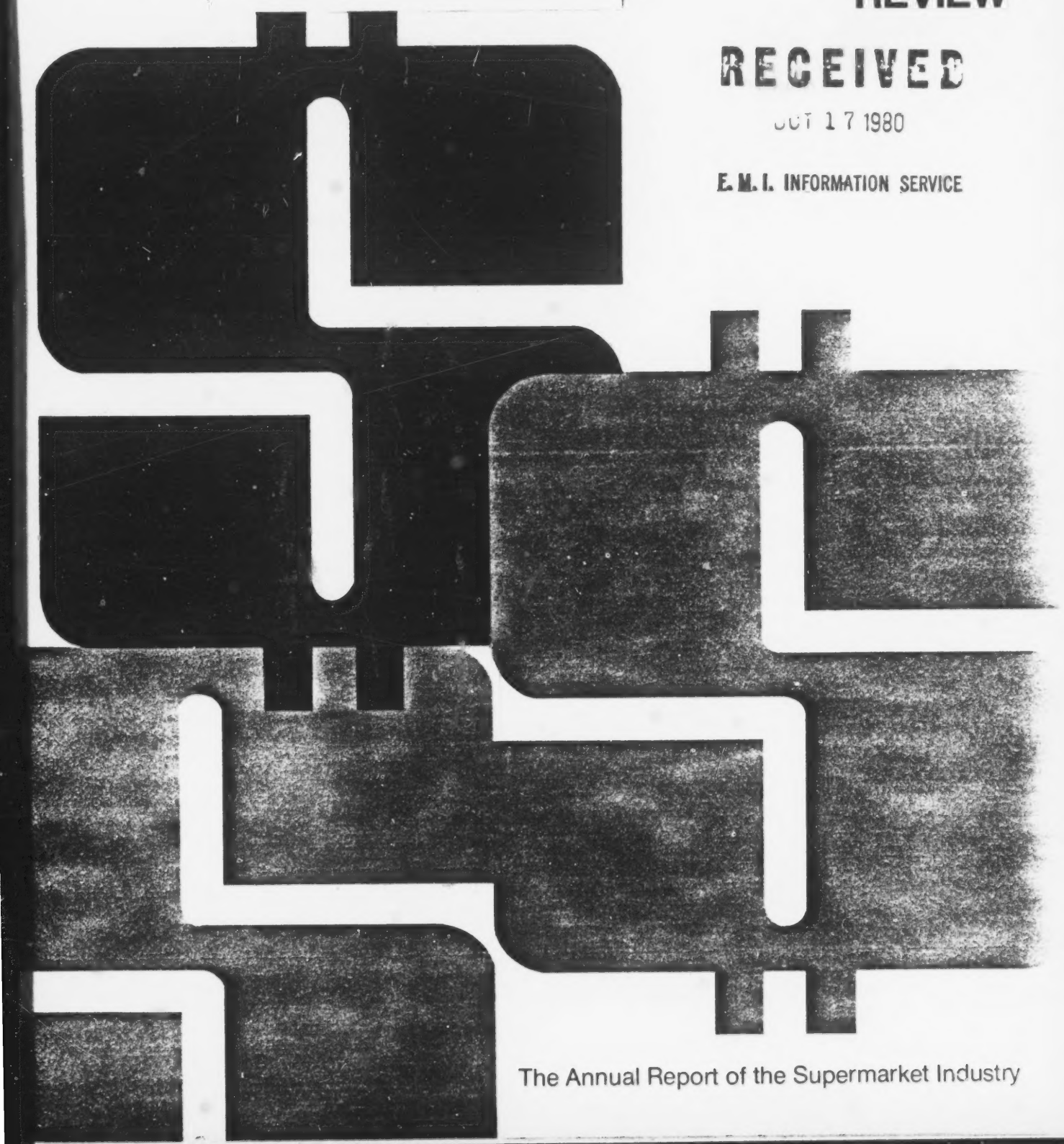

The Annual Report of the Supermarket Industry

PREFACE

The Annual Financial Review is essentially a financial track record of the supermarket industry. This report uses a statistical procedure which provides figures relevant to the entire industry rather than to an arbitrary sample of companies and thereby overcomes one of the major limitations of current industry financial statistics. It is designed to aid the industry and the public to better understand the economics of the supermarket industry. The Annual Financial Review provides a unique financial picture of the *entire* supermarket industry, the only known source of its kind.

A brief visual analysis of industry financial trends is in the beginning of the report. The last pages include dollar estimates of an industry income statement and balance sheet.

For this report, the definition of a supermarket is based on the 1972 Census of Retail Trade. All grocery stores with annual sales of $1 million or more are considered supermarkets. Since the supermarket industry is based on the U.S. Census, the numbers in this report will differ from those published in other industry reports.

Information in this report is derived from a mail survey and from public financial reports, including data from private and public corporations. For more information on how this report was developed, see the methodology section on the last page.

The financial well-being of the supermarket industry has been affected by the high inflation rates of recent years, which distort sales, profits, and inventories. In this report, two approaches were used to help eliminate these distortions.

1. For some estimates, current dollars (e.g. 1978 dollars) were deflated by the CPI for food at home to give real dollars (1967 dollars).
2. Some industry estimates were reported as percentages instead of dollars.

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INTRODUCTION

The mounting inflation rate of 1978 carried over into 1979 leading to an unsettled economic climate. Inflation as measured by the all item consumer price index rose 13.3 percent. A major cause was the disruptive impact of rapidly rising energy prices.

In energy:

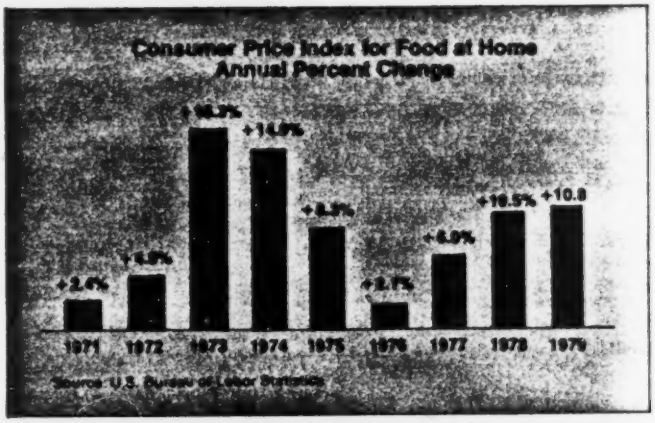
- Oil imports stayed at their high levels, and per barrel prices have now risen to about $30, a 79 percent increase in one year.
- The nation experienced gasoline shortages, and the short-fall in diesel fuel proved very dangerous to our distribution system.
- Rising utility prices continue to take an increasing chunk out of operating costs.

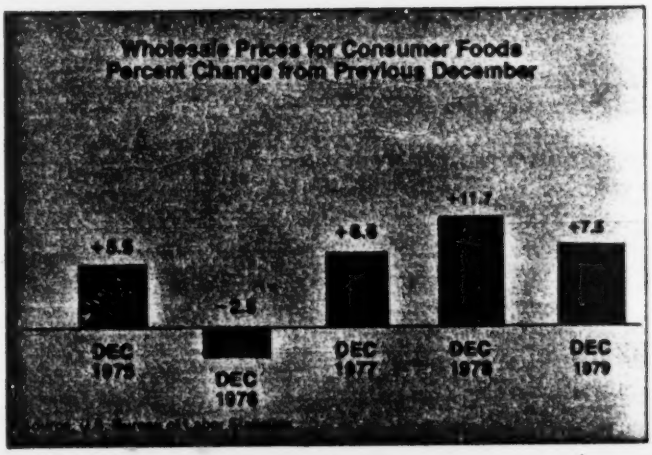
Other factors which have had a downward influence on the economy include:

- An enormous rate of inflation fueled by oil prices, government deficits, excessive government regulation, declining productivity, and automatic indexing through COLA's.
- The growth in credit and decline in savings accompanied by record high interest rates.

The inflation caused decline in real per capita income provided a difficult backdrop for food distributors in 1979.

The following pages provide a closer look at the financial picture of the supermarket industry.





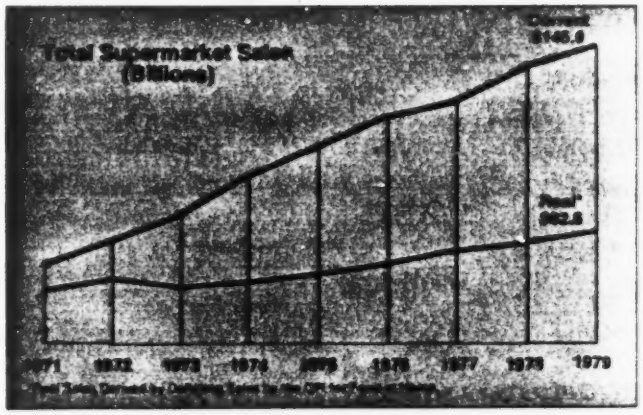
FINANCIAL PICTURE

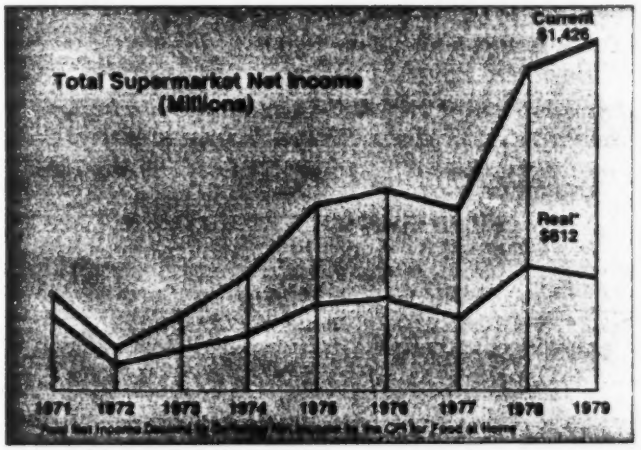
Industry sales continued their long term growth, reaching a record $145.9 billion in 1979. Most of this growth, however, was due to inflation. Real sales grew only .6% during 1979.

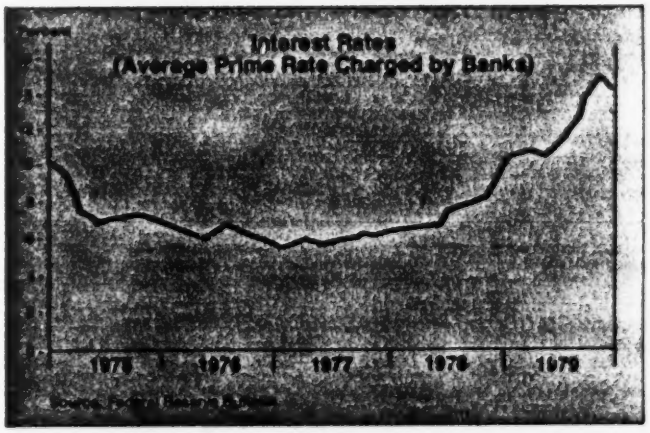
While total industry net income continued increasing, real dollar income actually declined 3.6% from 1978.

Interest rates increased throughout 1979. The tightening of money was a reflection of the fiscal restraint which was being used to curb inflation.

(Note: Deflating net income by the CPI for food at home provides only an approximate estimate of inflation. However, it does give the reader an idea of what has happened to real profit dollars.)







ASSETS & LIABILITIES

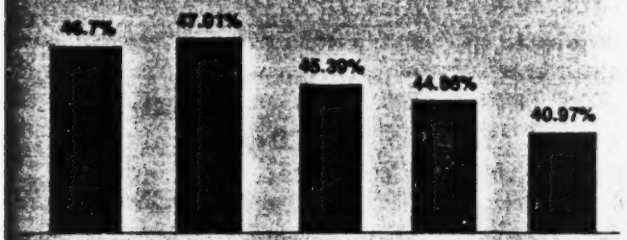
As companies comply with provisions of the Financial Accounting Standards Board Statement #13, lease capitalization continues to affect the balance sheet of the supermarket industry.

Amounts previously reported have not been restated to reflect the impact of lease capitalization, therefore caution should be used when making any comparisons.

Asset Categories as Percent of Total Assets

	1975	1976	1977	1978	1979
Other Assets	6%	6%	5%	5%	6%
Net Property & Equipment	37	37	39	42	43
Other Current Assets	20	18	18	18	16
Inventory	37	39	37	35	35
	100%	100%	100%	100%	100%

Accumulated Depreciation as Percent of Depreciable Assets*



*Depreciable Assets include Buildings, Fixtures and Equipment, and Leasehold Improvements

Liabilities and Net Worth Categories as Percent of Total

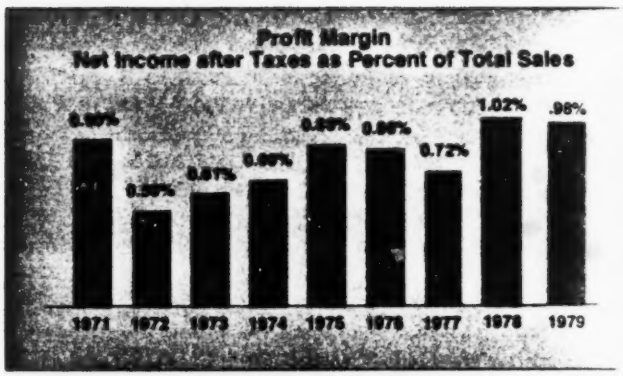
	1975	1976	1977	1978	1979
Other Net Worth	14%	14%	20%	11%	11%
Retained Earnings	31	31	25	27	27
Long Term Liabilities	17	18	20	26	25
Current Liabilities	38	37	35	36	37
	100%	100%	100%	100%	100%

PROFITS

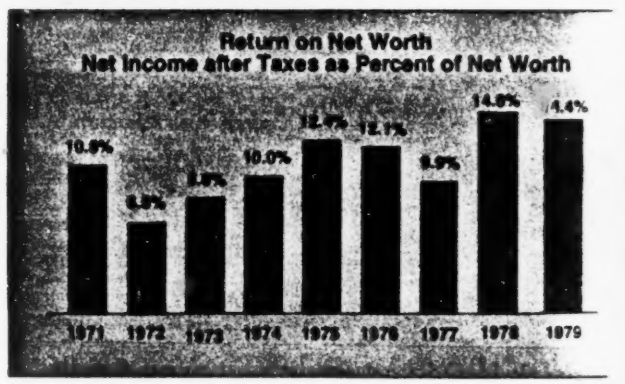
Within the volatile economic environment caused by rapid inflation, the highly competitive supermarket industry has experienced wide swings in profit levels over the past decade.

In 1978, for the first time in the decade of the '70's, profits rose above one percent, a level common during the decade of the '60's. In 1979 profits dropped to .97% of sales. Return on equity was also down slightly to 14.4% but return on assets increased to 7.1%.

The large company category turned in the best profit performance for the second year in a row. During the '70's, the smaller firms have typically been the most profitable, often by a wide margin. In fact, over the last five years the largest profit rates have been turned in by our smallest size category-those with sales of less than $10 million.



Return on Total Assets
Net Income after Taxes (before Interest) as Percent of Total Assets
7.1%
1971 1972 1973 1974 1975 1976 1977 1978 1979



Profitability by Size Category

PROFIT MARGIN
Net Income after Taxes as a Percent of Total Sales

Firm Sales (millions)	1975	1976	1977	1978	1979
Less than $10.0	0.99	1.20	0.95	0.92	0.90
$10.0-$99.9	0.92	0.78	0.76	0.93	0.94
$100.0-$499.9	0.91	0.95	0.76	0.93	0.81
$500.0 and over	0.80	0.68	0.58	1.13	1.09

RETURN ON TOTAL ASSETS
Net Income after Taxes (before interest)* as Percent of Total Assets

Firm Sales (millions)	1975	1976	1977	1978	1979
Less than $10.0	8.3	9.8	7.9	7.6	8.7
$10.0-$99.9	7.3	6.6	6.1	6.9	7.4
$100.0-$499.9	6.8	6.3	5.1	6.5	5.8
$500.0 and over	5.3	4.3	4.2	6.5	6.9

**Net Income + Interest (1-tax rate)*

RETURN ON NET WORTH
Net Income after Taxes as a Percent of Net Worth

Firm Sales (millions)	1975	1976	1977	1978	1979
Less than $10.0	15.4	18.8	13.2	13.4	14.5
$10.0-$99.9	14.6	13.0	12.2	15.1	16.1
$100.0-$499.9	11.8	11.6	10.0	14.2	13.9
$500.0 and over	10.4	8.8	7.9	15.7	14.6

FINANCIAL STATEMENTS

5 YEAR SUMMARY

Income Statement For The Supermarket Industry
(Millions of Dollars)

	1975	1976	1977	1978	1979
Sales	$97,867.7	$106,675.8	$116,810.0	$130,830.0	$145,900.0
Cost of Sales and Operating Expenses	96,438.9	105,129.0	115,420.0	128,386.1	143,157.1
Interest Expenses	225.1	213.3	275.7	488.0	758.7
Total Costs and Expenses	96,664.0	105,342.3	115,695.7	128,874.1	143,915.8
Operating Income	1,203.7	1,333.5	1,114.3	1,955.9	1,984.2
Other Income	293.6	256.0	332.9	368.9	364.7
Income Before Taxes	1,497.3	1,589.5	1,447.2	2,324.8	2,348.9
Total Taxes on Income	665.5	661.4	630.8	1,024.5	937.9
Extraordinary Items-Net	29.4*	(10.7)	23.4	31.4	14.6
Net Income	$ 861.2	$ 917.4	$ 839.8	$ 1,331.7	$ 1,425.6

**Includes A & P's Adjustment of (Provision for) Costs of Closing Facilities*

End-of-Year Balance Sheet For The Supermarket Industry
(Millions of Dollars)

ASSETS	1975	1976	1977	1978	1979
CURRENT ASSETS					
Cash	$ 1,300.1	$ 1,300.8	$ 1,716.3	$ 1,796.4	$ 1,726.6
Accounts Receivable	743.3	609.6	796.5	1,029.2	826.3
Marketable Securities	545.8	522.7	565.2	867.5	740.4
Inventory (Note A)	5,606.2	6,602.9	6,772.3	8,241.1	9,334.3
Other Current Assets	482.1	649.5	565.1	601.7	808.9
Total Current Assets	8,677.5	9,685.5	10,415.4	12,535.9	13,436.5
PROPERTY AND EQUIPMENT (Note B)					
Land	451.0	538.4	678.2	618.7	769.4
Buildings	1,555.1	1,797.4	3,227.1	5,393.2	5,484.7
Fixtures and Equipment	6,998.0	7,707.4	8,366.9	9,771.6	10,771.4
Leasehold Improvements	1,166.3	1,245.2	1,371.9	1,581.3	1,953.4
Total Property and Equipment	10,170.4	11,288.4	13,644.1	17,364.8	18,978.9
Reserves for Depreciation	(4,540.9)	(5,053.7)	(5,884.7)	(7,512.4)	(7,461.2)
Net Property and Equipment	5,629.5	6,234.7	7,759.4	9,852.4	11,517.7
OTHER ASSETS	917.6	911.7	988.9	1,318.1	1,658.0
TOTAL ASSETS	$15,224.6	$16,831.9	$19,163.7	$23,706.4	$26,612.2

Note A

Some firms value at least part of their inventory on a LIFO (last in, first out) basis. End-of-year inventories would have been increased if valued on a FIFO (first in, first out) basis.

End-of-Year Balance Sheet For The Supermarket Industry

(Millions of Dollars)

LIABILITIES AND NET WORTH	1975	1976	1977	1978	1979
CURRENT LIABILITIES					
Notes Payable	$ 398.1	$ 408.1	$ 553.2	$ 643.7	$ 1,074.2
Accounts Payable	3,856.7	4,164.6	4,583.1	5,550.6	6,393.5
Income Taxes Payable	325.0	307.4	235.3	478.7	373.6
Other Current Liabilities	1,147.7	1,354.6	1,440.3	1,875.5	2,095.7
Total Current Liabilities	5,727.5	6,234.7	6,811.9	8,548.5	9,937.0
LONG-TERM DEBT					
Mortgages	715.3	764.1	1,012.7	1,250.9	1,600.7
Bank Loans	542.7	1,024.7	529.1	1,118.2	1,282.1
Bonds and Debentures	399.7	399.4	344.2	685.0	706.9
Capitalized Lease Obligations (Note B)	—	—	1,026.6	1,885.2	2,253.2
Other Noncurrent Liabilities (Note B)	517.9	356.0	635.9	759.7	554.7
Total Long-Term Debt	2,175.6	2,544.2	3,548.5	5,699.0	6,397.6
DEFERRED LIABILITIES	387.2	460.2	304.7	327.2	353.9
Total Liabilities	8,290.3	9,239.1	10,665.1	14,574.7	16,688.5
NET WORTH					1,513.4
Common Stock Outstanding or Proprietorship	1,037.3	1,146.2	1,302.8	1,145.1	
Preferred Stock Outstanding	108.9	138.9	218.4	170.8	222.3
Paid-in Surplus	1,259.6	1,328.6	1,516.2	1,620.0	1,296.0
Retained Earnings	4,754.0	5,265.6	5,754.4	6,489.8	7,052.8
Treasury Stock	(225.5)	(286.5)	(293.2)	(294.0)	(160.8)
Total Net Worth	6,934.3	7,592.8	8,498.6	9,131.7	9,923.7
TOTAL LIABILITIES AND NET WORTH	$15,224.6	$16,831.9	$19,163.7	$23,706.4	$26,612.2

Note B

Property under capitalized leases is included in the appropriate property categories based on the type of property leased. Capitalized lease obligations are included in other noncurrent liabilities in years prior to 1977. Amounts previously reported have not been restated in accordance with the retroactive provisions of Financial Accounting Standards Board Statement #13 because the amounts were not available.

Statement of Sources and Uses of Funds For The Supermarket Industry

	1975		1976	
	Amount ($ Million)	Percent	Amount ($ Million)	Percent
USES				
Increase in Cash and Securities	$ 379.2	25.6%	$ —	— %
Increase in Inventory	70.9	4.8	996.7	46.4
Increase in Other Current Assets	88.8	6.0	33.7	1.6
Increase in Gross Fixed Assets*	735.9	49.6	1,118.0	52.0
Increase in Other Assets	140.9	9.5	—	—
Reduction in Reserves for Depreciation	—	—	—	—
Reduction in Long-Term Debt	38.0	2.6	—	—
Reduction in Deferred Liabilities	28.2	1.9	—	—
Reduction in Paid-in Capital	—	—	—	—
Total Uses of Funds	$1,481.9	100.0%	$2,148.4	100.0%
SOURCES				
Increase in Reserves for Depreciation	$ 213.5	14.4%	$ 512.8	23.9%
Increase in Accounts Payable	207.8	14.0	307.9	14.3
Increase in Other Current Liabilities	143.8	9.7	199.3	9.3
Increase in Long-Term Debt*	—	—	368.6	17.2
Increase in Deferred Liabilities	—	—	73.0	3.4
Increase in Retained Earnings	762.3	51.5	511.6	23.8
Increase in Paid-In Capital	154.5	10.4	146.9	6.8
Reduction in Cash and Securities	—	—	22.4	1.0
Reduction in Other Assets	—	—	5.9	0.3
Total Sources of Funds	$1,481.9	100.0%	$ 2,148.4	100.0%

**Property under capitalized leases is included in the appropriate property categories based on the type of property leased. Capitalized lease obligations are included in other noncurrent liabilities in years prior to 1977. Amounts previously reported have not been restated in accordance with the retroactive provisions of Financial Accounting Standards Board Statement #13 because the amounts were not available.*

Statement of Sources and Uses of Funds For The Supermarket Industry

1977		1978		1979	
Amount ($ Million)	Percent	Amount ($ Million)	Percent	Amount ($ Million)	Percent
$ 458.0	13.8%	$ 382.4	6.2%	$ —	— %
169.4	5.1	1,468.8	23.4	1,093.2	35.2
102.5	3.1	269.3	4.3	4.3	0.1
2,355.7	71.0	3,720.7	59.3	1,614.1	52.0
77.2	2.3	329.2	5.2	339.9	11.0
—	—	—	—	51.2	1.7
—	—	—	—	—	—
155.5	4.7	—	—	—	—
—	—	102.3	1.6	—	—
$3,318.3	100.0%	$6,272.7	100.0%	$3,102.7	100.0%
$ 831.0	25.0%	$ 1,627.7	25.9%	$ —	— %
418.5	12.6	967.5	15.4	842.9	27.2
158.7	4.8	769.1	12.3	545.6	17.6
1,004.3	30.3	2,150.5	34.3	698.6	22.5
—	—	22.5	0.4	26.7	0.9
488.8	14.7	735.4	11.7	563.0	18.1
417.0	12.6	—	—	229.0	7.4
—	—	—	—	196.9	6.3
—	—	—	—	—	—
$3,318.3	100.0%	$6,272.7	100.0%	$3,102.7	100.0%

METHODOLOGY

The Annual Financial Review was developed from three sources of data:

1) The 1972 Census of Retail Trade (7,165 firms reported)
2) A mail survey of FMI members
3) Securities and Exchange Commission Forms 10-K filed by publicly owned supermarket firms

A stratification of sales of the supermarket population was obtained by a special tabulation of the 1972 Census of Retail Trade. The sales dollars reported in Table 1 may differ from other industry reports because the stores considered in this Census are limited to those with at least 50% of their sales in grocery and food items and may not include large department stores which have food departments. Support facilities such as warehouses, transportation equipment, offices and backup inventories are considered part of the industry. The definition of a supermarket for this report is a grocery store doing more than $1 million in annual sales.

Financial statements were supplied by 141 FMI member firms. Financial data for the larger firms that did not respond to the FMI mail survey were obtained from their Form 10-K reports filed with the Securities & Exchange Commission. In all, data were collected on 148 firms operating over 13,200 stores. Industry sales were extrapolated from various other published and unpublished sources.

The individual financial statements were put into four strata based on sales volume (see Table 1). Means were calculated for each strata and the statistics for each strata were then weighted using the relationships shown in Table 1 to develop the industry averages reported. The use of the Census sales statistics helps eliminate year-to-year changes that result from changes in the sample of firms submitting financial data.

This method of estimating industry financial statistics does not totally eliminate the problem of segregating supermarket operations from other lines of business in a diversified company, but it does provide the best published measurement of trends in the industry's capital structure.

TABLE 1

Supermarket Population Based on the 1972 Census of Retail Trade*

Firm Sales (millions)	% of Total Firms	1972 Sales (millions)	% of Total Sales
Less than $10.0	94.3%	$14,647.1	22.3%
$10.0-$99.9	4.6	9,398.5	14.3
$100.0-$499.0	0.8	11,601.6	17.6
$500.0 and over	0.3	30,154.9	45.8
TOTAL	100.0%	$65,802.1	100.0%

Source: U.S. Census Bureau